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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 001837

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FOR WHA AND WHA/BSC FOR B.CHIANG AND D.SCHNIER

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SUBJECT: LULA'S TRIP TO EUROPE: CAN ITAMARATY FOLLOW THROUGH?

Classified By: Deputy Chief of Mission, reasons 1.4 B and D

¶1. (C) Summary. Brazilian President Luis Inacio "Lula" da Silva,s mid-September tour of four Scandinavian countries and Spain to promote foreign investment, expand the use of biofuels in Europe, and press for the expansion of the United Nations Security Council (UNSC), represents a continuation of his efforts to enhance Brazil,s role as the key European partner in Latin America and a global player in its own right. The trip can also be seen as a preview of what will motivate Lula,s diplomatic efforts on the European front during the remainder of his term; an ambitious agenda that, due to resource and staffing constraints, may overtax the Ministry of External Relations, (MRE, or Itamaraty) ability to follow through effectively. End Summary.

Selling Brazil to New Markets

¶2. (C) During a wide-ranging discussion with PolCouns and Poloff, MRE Western Europe Division Chief Counselor Ricardo Guerra de Araujo said that Lula,s discussions in all Sweden, Norway, Finland, Denmark, and Spain focused heavily on expanding trade, particularly Brazilian exports of ethanol, increasing foreign investments as part of the Growth Acceleration Program (PAC), and selling Brazil as a model of steady growth, stability, and reliability in a region experiencing political turmoil.

¶3. (C) The Scandinavian part of the visit, which represented a first for a Brazilian president and, in part, reciprocated similar visits to Brazil by Scandinavian leaders, such as Norway,s King Harald V and Queen Sonja in 2003, mainly focused on increasing investments in Brazil and access to markets for Brazilian ethanol. Although trade with Scandinavian countries is not significant, Araujo said, it is growing. Trade with Sweden in particular has grown more than 40% since 2000 and more than 180 Swedish companies have a presence in Brazil. In the area of biofuels, Sweden imports more than 80% of its ethanol needs from Brazil and boasts a

growing flex-fuel fleet of more than 40,000 vehicles. In what may have been the most significant, if largely symbolic, moment of his Scandinavian tour, the Swedish government eliminated its tariffs on ethanol, although that still leaves Brazilian ethanol subject to a 55% EU tariff. During the visit Lula signed accords with Scandinavian countries to work together on climate change, cooperate on biofuel research and assist developing countries develop biofuel technology.

Consolidating a Strategic Partnership

¶4. (U) President Lula also completed his second official visit to Spain, Brazil's second largest foreign investor after the US. Lula and top Brazilian officials made a full court press for economic leaders from Banco Santander, Telefonica, BBVA, and others to sell the PAC to Spain, business elite and increase Spanish investments in infrastructure projects. According to press reports, some of these projects include an estimated US\$9 billion high-speed rail line from Sao Paulo to Rio de Janeiro and an estimated US\$4.7 billion 25 year concession to double the capacity and maintain about 2,600 km of roads in five states in the south and southeast of Brazil.

¶5. (U) Beyond the economic arena, the visit to Spain also served to build support for an enhanced role for Brazil in international institutions, a fact underscored by Spanish Premier Jose Luis Rodriguez Zapatero's public statements in support of reforming and "democratizing" the UN Security Council. Both Lula and Zapatero repeatedly asserted that the relationship between Spain and Brazil had expanded beyond

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economic links and that both countries were now full strategic partners that shared a wide array of common interests.

¶6. (SBU) In fact, Araujo noted, the growth in ties with Spain has seeped into the cultural arena as well; Spain has opened, or is in the process of opening, nine Cervantes Institutes throughout Brazil, which is the most Spain has in any country. The institute is charged with promoting Spanish culture and building cultural ties with the host country. The institutes play a key role in instructing Brazilian teachers of Spanish, which is now one of two languages (the other being English) besides Portuguese taught in middle schools.

But not Forgetting Old Partners

¶7. (C) According to Araujo, in addition to Spain, Brazil has strategic relationships with Portugal, Spain, France, and, as Brazil's largest trade partner in Europe, Germany. The European Commission is also seen as a strategic partner in Europe. Portugal, with strong historical, economic, and cultural links is a strategic partner, although Portugal's turn in the EU presidency has put high-level interactions, such as the annual meeting between the Brazilian president and Portuguese PM, on hold. The two will not meet until next year. Araujo indicated that recent moves in Portugal to more strictly monitor entry of illegal immigrants has caused friction in the bilateral relationship, as Portuguese authorities have been sending back Brazilians, who do not require a visa to travel to Portugal, when they arrive at Portuguese airports.

¶8. (C) Araujo singled out France as an important partner because of its support for the G4 proposal on UNSC reform and partnership with Brazil on development projects in Africa. Araujo was clearly intrigued by President Sarkozy's proposal to bring Brazil into the G8, although he understands that the G8 as a whole will need to consider France's proposal. Araujo sees joint development projects with European countries in Lusophone Africa as a key part of Lula's

European agenda, although Araujo did not think plans for most of these projects were concrete at this stage. According to Araujo, Lula intends to continue his outreach to European countries with trips to Italy and the Netherlands next year.

From outreach to overreach?

¶9. (C) A potential stumbling block in developing and expanding strategic links with Europe may be the lack of personnel at Itamaraty to follow through on Lula,s active travel schedule and set of initiatives. Araujo was frank in discussing staffing problems that complicated implementation of agreements reached during the latest trip. His office, which handles bilateral relations with all of Western Europe and the EU, is staffed by two people and two part time interns completing their initial three-year training at the Rio Branco Institute (the equivalent of the Foreign Service Institute).

Comment:

¶10. (C) It appears that Lula intends to dedicate a significant portion of his second term to intensifying his efforts to attract new investments, enhance Brazil,s role in international institutions, and exploit global concerns over climate change to tirelessly preach the ethanol gospel to the international community. Whereas in the past Brazil may have lacked a sufficiently compelling set of reasons to convince

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European leaders that it could punch in a weight class commensurate with its size, Brazil can now back up its claims by pointing at its sustained period of growth, democratic stability, positive influence through MINUSTAH and other efforts in a region experiencing political turmoil, and its role as an exporter of technologies that provide solutions to global problems. The challenge to Lula will continue to be whether Brazil can overcome its own staffing shortages which could significantly limit, in practice, the implementation of Lula,s agenda. Staffing levels in the Europe division probably reflect a failure to reconcile old staffing levels focused on more limited diplomatic activity aimed at niche regions than with Lula,s global international agenda. This situation will only be exacerbated by a cut in Itamaraty personnel costs of about US\$100 million planned for 2008 that was reported in the press this week. End Comment.

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